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In May 1999, the National Endowment for Financial Education hosted a seminal event—a think tank convened for the purpose of looking into the future and identifying the changes, challenges, issues, and opportunities that will confront today's growing number of aging Americans as they embark on their retirement years. NEFE brought together a diverse group of experts from the financial services industry who advise others on retirement planning, as well as professionals from allied fields, to examine current trends, predict new ones—and discuss their impact on "Retirement Planning In the 21st Century." A report on the think tank follows.

RETIREMENT PLANNING IN THE 21ST CENTURY

A Think Tank Sponsored by the National Endowment for Financial Education
Tucson, Arizona—May 26-28, 1999

Introduction

As has been well documented and much discussed, the Baby Boom generation—that cohort of 77 million born between 1946 and 1964—has heavily influenced, if not dominated, the American political, social, cultural, and economic landscape. The financial services community has not escaped this influence. As Baby Boomers focused on their early and middle earning years, buying homes and raising families, the financial services industry, particularly the emerging financial planning profession, directed its attention to enhancing investment earnings and tax shelters for Baby Boomers. Now the industry has turned its attention to the new concern for Baby Boomers: retirement.

The first wave of Baby Boomers (the birth rate actually began rising in 1933, not 1946, and rose for the next 32 years) will begin to "retire" starting in the early years of the 21st century. The success or failure of their retirement experience will have profound implications for succeeding generations. The full implications of that retirement experience are not yet known. What is known is that the Boomers' retirement experience—like

virtually every other aspect of their generation—will be dramatically different from that of their parents and their grandparents.

But what exactly will this new retirement look like? Is it one clear vision, or many disparate ones? What will be the characteristics of the "new retiree"? What new assumptions must be made? If this new retirement is markedly different from the experiences of previous generations, how should Baby Boomers and succeeding generations prepare for it? How should the financial services industry help them prepare? Is its role primarily to ensure that people have enough money, whatever their vision of retirement—or is it to help them discover and choose the vision itself? What new planning approaches should be taken to achieve the desired results? How should those approaches be communicated to consumers?

With these questions and challenges in mind, the National Endowment for Financial Education® (NEFE®) convened a landmark think tank for the financial services industry to examine this vital issue. NEFE brought together 31 of the best and brightest minds in the retirement field to spend three days in the Arizona desert. Participants included financial planners, representatives of financial services firms, financial planning organizations, gerontologists, a social worker, a psychologist, researchers, and academicians. Their charge was to provide shape and substance to this new vision of retirement, and to examine the attendant issues.

When their work was done, all agreed the sharing of new perspectives and insights from their respective disciplines excited them. Many learned of work being done by others that they were not aware of, but which they instantly recognized as an invaluable contribution to the retirement field.

Intense, frank, and frequently passionate discussion and debate marked the three days. By no means did participants agree on every point or topic. Certainly the picture of the new retiree and the new retirement that emerged from the three days was not a fully formed one, nor was there unanimity about how the financial services industry should respond to this new perspective on retirement. Yet there were strong points of agreement. Among them:

- The picture of retirement is changing dramatically.
- Consumers must become more responsible for the success or failure of their own retirement.
- The financial services industry must do a much better job of educating the public about the features, possibilities—and parameters—of this new retirement.

Clearly, much more research, more dialogue, more bringing together of experts is needed. Nonetheless, the think tank proved a promising beginning, an invaluable jumping-off point, to take retirement planning

into the 21st century.

What Will the New Retirement—and Retiree—Look Like in the 21st Century?

The think tank opened with a keynote speaker, followed by a presentation by five panelists. These six presenters described the traditional view of retirement, the "old" view of retirement. Then they proceeded to paint a picture of what they think retirement in the 21st century will look like, what some of the new characteristics and parameters will be that define the "new retiree," and some of the challenges these new retirees and their financial advisors will face. Over the three days, participants joined in to elaborate on, and sometimes to disagree with, aspects of that portrait, adding their own shapes and hues.

The following section provides an overview of the key characteristics and challenges of the new retirement discussed at the think tank. Some of these points are not especially new. Participants acknowledged that some of them have been creeping into the retirement picture for decades now. Yet consumers—and some would say many retirement advisors—have been slow to respond to these new concepts. Many people still operate on outdated rules of thumb and premises. Hence, further elucidation and promulgation of these issues remain important if consumers and the financial services industry want to be prepared for the new retirement reality in the next millennium.

Traditional Retirement

The traditional concept of retirement—one many consumers, and even members of the financial services community, still picture today—is fairly clear. It is short and often not so sweet. One participant described it as the "miserable existence" model of retirement. It is a model that grew out of the observed reality of the Great Depression and developed during the 1940s and 1950s. This traditional vision sees retirement as representing a single "event"—a target date, typically around age 65, in which one goes abruptly from full employment to full non-employment. This concept of retirement evolved out of the days when work was predominately physical, and the body simply wore out in one's 50s or 60s. Retirement in this context is a brief period of idleness and declining health, a time in which the retiree is "too sick to work, yet too well to die." In response to this vision of retirement, the key retirement planning strategy was simply to plan prudently to ensure financial survival.

This simple, straightforward reality of retirement has been undergoing radical change during the last quarter century or more—driven by demographic forces—and creating a new reality of retirement. Future retirees will live a retirement quite different from that of their parents or

grandparents. They will follow different patterns—leaving the workplace earlier, leaving it later, leaving it only part-time, leaving and then returning to it. For example, someone might take a chunk of their retirement funds and go off to the Peace Corps for three years in their 40s or 50s with the idea that they will work until age 75 as a trade-off. Yet others will want to follow the traditional model—work until they reach their mid-60s and then leave the workplace entirely. Retirement planning in the future will need to incorporate these many disparate visions.

Increasing Longevity

Without question, the driving force behind this new retirement picture is increasing longevity—the remaining life span for people reaching a milestone age such as 65. As noted by one of the panelists, in the first 50 years of the 20th century, longevity for people reaching age 65 increased 1.3 years for men and 2.8 years for women. But from 1950 to 1995, longevity for men increased 2.7 years and for women it jumped 4.2 years.[1] From 1995 to 2050, longevity is estimated to increase another 4.8 years for men and 3.2 years for women. In short, overall longevity is increasing at a faster and faster rate.[2]

Looked at another way, the number of people age 65 or older is expected to increase 17.5% from 1995 to 2010—but the number is expected to increase 106.8% from 1995 to 2030. The number of people age 85 and over is expected to increase 133.3% from 1995 to 2030![3]

As one participant put it, "We have a revolution going on in this country. Longevity has put the whole issue of what is retirement and who is old on its head."

The reality of this increasing longevity, coupled with improved health in retirement, is already well recognized in the financial services community, and even among many consumers, at least on an intellectual level. What is being recognized more slowly are the meaning and practical financial implications of this increased longevity. As a financial planner pointed out, it's not uncommon for new clients planning to retire soon to start talking about leaving an inheritance to their children. However, they begin to view that goal differently when it's pointed out to them that their children might be 70 years old before they inherit. Perhaps lifetime gifting would be more appropriate. Or clients say they plan to retire next year so they want to buy a new car now. What new car do they plan to buy, they are asked, that will last them through the next 30 to 40 years of retirement?

Changing Concepts of "Old"

Increasing longevity is changing the answer to the basic question of what is old. It was pointed out, for example, that when typical Baby Boomers are

asked to describe how old they are, they say they feel 10 to 20 years younger than they are chronologically.

The chronological milestones of life also are changing. Not long ago, people had their kids in their 20s, they bought a home in their 30s, the kids were out of the home in their 40s, and the parents still had 20 to 25 years to prepare for a short retirement. Today, people have kids in their 30s, and the kids are not out of the house until the parents are age 50 or older. Hence, where age 35 once was commonly considered middle age, middle age now occurs from around age 50 to retirement.

At the same time, there clearly is a fear of becoming old. A recently released study by the American Association of Retired Persons (AARP) was cited in which 63% of the Americans polled did not want to live to be age 100. Why not? Forty-six percent cited health problems as their biggest fear, but the second highest concern, among 38% of them, was that they would not have enough money to support themselves in old age![4]

Earlier Retirement

Another characteristic of the new retirement outlined at the think tank was that, at the same time that people are living longer in retirement, many are retiring earlier—some as early as age 55. Social Security has reported that in the last two to three years, two thirds of the people receiving their first Social Security check were early retirees. Another study showed that 39% of today's retirees retired at age 60 or younger, and another 27% entered retirement between ages 61 and 64.[5]

This trend toward earlier retirement, however, is not entirely a voluntary one. One panelist noted that 43% of retirees reported retiring earlier than they had planned, most often due to company downsizing or health problems (theirs or those of family members). A quarter of these retirees have worked for pay since retiring, another 42% say Social Security is their most important source of income, and a third noted that they never saved anything toward retirement.[6]

Meanwhile, only about half of today's workers say they expect to retire before age 65, and only 13% expect Social Security to be their main source of income.[7] "Thus, even on the surface," remarked a panelist, "experience versus expectations are in completely different worlds."

A New Definition of "Work"

While retirement from work at earlier ages is becoming more common, there also is a trend for people to work beyond the standard retirement age. "Employment in retirement is becoming the norm rather than the exception," was one observation at the think tank.

Some "retirees" may work out of financial necessity because they failed to save adequately for retirement, or they may experience financial emergencies that require greater-than-planned-for income needs. For others, work will provide an additional income stream that will make for a less stressful, more satisfying lifestyle than if they had stopped working entirely. Yet others will choose to work because of the emotional rewards they receive, which they can't obtain from the old vision of retirement as a time of rest. "Work is very much a part of the human spirit," it was noted. Gerontologists refer to this as "productive aging"—the desire to continue to produce and contribute to society in one's later years.

What form this "work" will take will vary widely. For some, it may mean a full-time job, but perhaps in a wholly different career than before, one that doesn't necessarily pay as well as their previous career, but something they've always wanted to do. It may be part-time work. Unpaid volunteerism also would be considered a form of work under this new definition of retirement. These "bridge" jobs could continue for as long as the person is healthy enough to do the job, perhaps even to within a few months of death.

However, one concern raised about this new perspective on work is how well corporate America, and Baby Boomers themselves, are preparing for this older workforce.

And the issue of working into retirement sparked a more fundamental question that was discussed throughout the think tank: If retirement is generally thought of as post-employment, does continued paid employment, full or part-time, mean the person isn't retired? The debate over what constitutes "retirement"—perhaps the need to redefine the word, or even substitute a new word or phrase—became a key issue at the think tank and will be explored in more depth later in this paper.

Not a Single Event

The financial services industry has succeeded in teaching people that retirement is a big issue, observed one panelist. Unfortunately, in the process, it has made retirement an "event." Yet it's not a single event, like birth and death. It's not a single destination, like a dot on the road map. It is the trip itself. People may say, "I will have achieved my goal when I retire at age 65"—but that begs the question of what will they do for the next 20, 30, or 40 years of retirement. "We should try to make retirement a non-event. If we do this correctly, then retirement becomes an insignificant Friday afternoon."

Interestingly, some participants expressed the view that, at times, the think tank group itself was still stuck in the old concept of retirement as an event people worked hard for and saved for so they could "buy" their freedom at

a particular point in the future. One can't divorce retirement planning from the rest of financial planning, went their argument. It must be viewed and planned for in the context of one's entire lifetime. "Do we really want to look at retirement as the last third of life that we get through and then die?" and "To amputate retirement from the rest of life is to fall under the old paradigm" were comments that exemplified this viewpoint.

No Longer Homogeneous

As the years of "retirement" stretch out three or even four decades, retirement no longer is the short, homogeneous phase in life that it once was. Consequently, the life and needs of a 55-year-old retiree are quite different from those of an 85-year-old retiree. One proposal was to think of retirement in three principal phases, or stages:

1. The "go-go" phase is like a second childhood without parental supervision, potentially the most wonderful time in a person's life.[8]
2. The "slow-go" phase is a more passive phase marked by time for quiet introspection and "getting life straight."[9]
3. The "no-go" phase is defined by the need for medical and nursing care, a phase that can cast a pall over the rest of retirement.[10]

Each of these phases brings different levels of expenses, and different cash-flow requirements, which financial advisors must be prepared to help their clients address.

Another approach offered was to look at retirees as "young-old" and "old-old." This divides retirees according to their functional age, rather than a chronological age. The young-old would live independently and be fully functional, the old-old would not be fully functional and would not be able to live independently. They might not be able to perform certain activities of daily living (ADLs), such as bathing or dressing, or instrumental ADLs, such as handling finances or driving.

Not all participants agreed with the description of the new retirement in such distinct phases or stages. Some preferred to think of it more as a developmental process, a continuum with no clear divisions. Others, however, found the concept of "stages"—like the well-established stages of grief, for example—to be a helpful way for financial advisors and consumers to conceptualize retirement, as long as everyone recognizes that, in reality, retirement is a continuum.

However one views retirement, all agreed that today it spans a much longer time frame than ever before, and that there can no longer be a "one-size-fits-all" retirement model.

More Complexity

Another distinguishing element of the new retirement is a general increase in planning complexity. As longevity increases, so does the need for asset management, tax and estate planning, expanded insurance products, and other financial strategies. As each generation lives longer, multiple generations exist side-by-side. Retirement can no longer be thought of as planning for a single person aging alone. It must involve the entire "family." From a retirement planning standpoint, the financial advisor may be looking at four clients instead of one, and must deal with issues that have been outside the traditional realm of financial planning. Caregiving, for example, and its potential impact on family net worth, becomes an important issue.

One of the problems with Baby Boomers is an attitude of "me, myself, and mine," said one participant. They must learn to step out of their own retirement needs and recognize that they may be responsible for the retirement years of other family members, as well. It was suggested that, within the next decade or two, the federal government will mandate that more adult children be financially responsible for their parents, such as on a means-tested basis.

Reliance on Defined-Contribution Plans

The new retirement will be built in large part on defined-contribution plans. Although it is well recognized that defined-contribution plans dominate today's retirement plan landscape, what may be less recognized is that workers have long lived in a defined-contribution world, not a defined-benefit world, according to one panelist. In 1975, only 39% of workers were covered by a defined-benefit plan.[11] In fact, there were twice as many defined-contribution plans as there were defined-benefit plans then, though defined-benefit plans had more participants and more assets. Among today's retirees, only one-third receives traditional pension payments, and those benefits account for only 19% of total retirement income. Defined-contribution plans now greatly exceed defined-benefit plans in the number of plans, participants, and assets.[12]

The good news, it was asserted, is that today's defined-contribution plans "better match the reality of the work experience for most individuals than at any time in the past." These plans are more geared to today's mobile workers (although yesterday's workers were rather mobile, too). A good example is the emergence of the cash-balance plan. While technically a traditional defined-benefit plan, it looks and acts a lot more like a 401(k) plan to workers.

The bigger question is this: Will these defined-contribution plans generate sufficient retirement income? One of the participants suggested that the answer lies in four key questions.

1. Do I participate? Among employers offering defined-contribution plans, 75% of eligible workers participate. Those who don't tend to be younger workers and lower-income workers.[13]
2. How much do I contribute? Again, lower-income participants tend to contribute only up to the level of the employer's matching contribution. Higher income workers are more apt to make the maximum contributions allowed.
3. How do I allocate my assets? Among 30-year-olds, 25% have 80% of their assets in equities, which is probably good. But another 25% have no assets in equities.[14]
4. When I change jobs, what do I do with my money? Older people, and those with larger distributions, tend to keep them in the plan or roll over the assets. Younger workers with smaller amounts—say $5,000 to $10,000—tend to cash out and spend the money on new cars and vacations, not realizing the value of compounding.

Will these trends continue over the next 10 years? Probably, unless we can better educate and inspire workers to use these plans to maximum advantage, contended the participant.

Have Baby Boomers Saved Enough?

It is not clear, contended one panelist, whether Baby Boomers have saved enough to see them adequately through their retirement years. While a Merrill Lynch study, for example, says Boomers have saved only one-third of what they need, a Congressional Budget Office study released early in the 1990s claimed that Boomers were saving enough.

What is clear is that people today are getting a later start on saving than the current generation of retirees. They stay in school, postpone marriage, and start families later than earlier generations. This, compounded by the fact that many are retiring earlier, leaves them less time to save for retirement. Baby Boomers also have much of their personal wealth tied up in their homes. The dilemma here is: When they retire, will the generations behind them—who will be buying these properties—pay enough for the Boomers to recoup the money they spent on their homes and have it to help pay for their retirement?

Lower Investment Returns During Retirement?

While, traditionally, much of the emphasis on retirement planning has been to build a sufficient nest egg, there has been little focus on the kinds of average nominal returns Baby Boomers might expect from their portfolios during their retirement, contended a panelist. Currently, expectations, at least as advanced by the popular press, are that double-digit returns will continue for domestic stocks and bonds over the next decade or two. These expected returns are "way, way too high," said one participant.

As with most of the other characteristics of the new retirement scenario of the 21st century, demographics play a key role here, it was argued. As the Baby Boom generation matured in the 1960s and 1970s, its immense size, compared with adjacent generations, created a demand for goods that couldn't be met fast enough by increased supply, so prices rose—inflation was demand-pulled rather than cost-pushed. That demand will inevitably slow as Boomers age. With smaller generations behind the Baby Boomers, the engine of "inflation" is becoming an engine of "disinflation." The impact of this slowing demand is already being seen in the trend in many industries to "merge and purge" in order to become internally efficient because they can't raise prices.

Predicted one participant, shrinking numbers of domestic workers will slow real GDP to perhaps 1% a year, while productivity—in part driven by an aging, more productive workforce—averages 2% a year. Total real GDP will thus average about 3% a year. Consequently, the expected inflation rate of 3% or higher that most financial planners use today in their retirement planning calculations is too high. A more realistic annual inflation rate will be around 1% over the next 10 to 20 years. Even factoring in increased demand from immigrants will not significantly alter this disinflationary trend.

The long-term outlook for U.S. Treasuries, whose current yield is in the 4% range, will shrink to the threes, then the twos, and eventually the ones. Total return for the S&P 500 would be around 7%. "At a minimum," said the panelist, "this means that a lot of models we have used in terms of when people should begin to move from riskier stocks to less risky bonds will go out the window. It will occur much later in life for Baby Boomers than it did for their parents' generation, if it happens much at all. The investment mantra in the coming years will be the global search for yield."

What New Approaches Need to be Adopted?

Following the exploration of some of the new characteristics and challenges of retirement in the 21st century, participants in the think tank turned their attention to examining the implications of these changes. From their discussions emerged several viewpoints, sometimes at odds with one another, as to what consumers and their financial advisors need to do to adapt to this new retirement environment.

Self-Responsibility

One of the central themes repeated throughout the think tank discussions was the issue of who is going to pay for this new retirement. Who will be responsible for well-being in old age? Will it still be based on the older model of entitlements and benefits, a kind of social adequacy or safety net, which says that society will ensure that anyone who reaches retirement will

be taken care of? Or will we have a model based on individual equity, individual responsibility, that says you only get out what you put in?

While participants acknowledged that the debate over government's role in providing or not providing a retirement safety net is far from settled, their overwhelming consensus was that retirement in the 21st century would fall squarely on the shoulders of individuals. Said one participant: "There's no question we're seeing the emergence of a new value of self-responsibility."

This message of self-responsibility is not a new one, of course, noted the participants. Government, the media, and the financial services community have been preaching it for years. With longevity steeply pushing up the cost of taking care of non-working people, particularly with regard to health-care costs, the government is making it clear that people will need to bear a larger share of the costs. The bigger questions to many of the participants were whether people are hearing the message and, if they are, what they can do about it. "How can we get people to take greater responsibility for their own retirement?"

Core "Competencies" and "Confidences"

An effort was made to establish certain "core competencies" that consumers should exhibit if they are to take personal responsibility for their retirement. These competencies may include at least an awareness of what consumers don't know and where they can find people and resources to help them. While, in many ways, the competencies were relevant to financial planning at all stages of life, there was value specific to retirement planning. The core competencies recommended by participants included:

- Being in a position to make choices
- Having the ability to make a self-assessment of and analyze one's financial position
- Being able to set clear goals
- Having a minimum level of financial literacy
- Having a level of "aging literacy" that recognizes the new elements of aging
- Being able to implement the strategies necessary to carry out one's goals

The point also was made that one must be not only financially "competent," but also financially "confident" about executing these competencies. For example, many people are financially knowledgeable, yet they lack the confidence necessary to turn their knowledge into action when it comes to making financial decisions.

Planners Versus Savers

Most participants agreed that the financial services community and educators must do a better job of helping people realize the advantages of saving early, of saving even small amounts of money. But some participants felt that we need to create "planners" instead of merely "savers" among the working population. They pointed out, for example, that many workers don't make the best use of their defined-contribution plans. While someone might contribute 5% of their paycheck because that's what their company will match, they need to put in 7% of their paycheck, and start doing it early. Learning to make good financial decisions, and monitoring those decisions to stay on track, instead of merely being "a saver," has become more critical because the longer retirement time span requires retirees to make more financial decisions, both in preparation for retirement and during retirement itself.

Another argument was that "saving" has absolutely no appeal to lower-income people. For them, it would be more productive to emphasize the need to manage their money, which is one of the main components of financial planning. Only after they start properly managing their money can they begin to save.

One reason people have been savers and not planners is that many don't have any idea how much they need to accumulate for a comfortable retirement. While 63% of individuals have begun saving for retirement, only 45% have even *tried* to determine how much they need.[15] Commented one participant: "If everybody proactively thought about and acted on their hopes for the future, that would be a quantum leap from where we are today. The bulk of the population deals primarily with 'today.' They throw some money toward their future because they know they need to, but with no thought beyond that."

Added another participant: "In some sense, we've done a good job, in that we've created a lot of savers. Maybe we've won the first battle, but hardly the war. The next challenge is creating planners who then save accordingly."

A New Self

The debate over planners and savers was linked to another hotly discussed issue—the creation of a new "self" in retirement. Some participants felt that retirement planning for the 21st century is really more about personal issues than financial issues, that it is about generating a new identity, a new sense of "self." Future retirees need to be asking what they want to do with their life during retirement, what the personal implications of retirement are for them. Baby Boomers are looking for a meaningful role in their later adulthood. Money is important to them, but so is meaning and quality of life in their retirement, whether it's through work or leisure or other means. One participant suggested that the reason many people don't go to

financial planners is because they are afraid to confront this question of what self they want in the future. Thus, financial planners must be very cautious in asking the question of the average person.

Others worried that this emphasis on creating a new identity, a new "self," in retirement, was a potentially "elitist" vision of retirement for the average person. Asking people what new self they want to create for retirement is the wrong focus for people who are barely getting by financially. It's an approach that isn't going to appeal to them. People just want to know: "How much money do I need, and how do I get it?"

But, countered the other viewpoint, merely asking this question begs another one: "How much money, and for what: so I don't have to eat dog food, or so I have enough to take a cruise?" Just because someone is barely getting by, or has never thought of this deeper quality-of-life question, doesn't mean the question shouldn't be asked.

Indeed, it was argued, the financial planning industry is currently an industry of answers. Instead, it should become an industry of questions. The questions must be asked before we can tell people the answers. Summed up one participant: "People spend more time cleaning out their refrigerator than they do thinking about their retirement lifestyle. That's because we give them rules of thumb and shortcuts to help them get there, because our expectation for them is that they either can't or don't want to go there."

As a final note in this area, one participant suggested that the entire discussion about creating a new self might be somewhat moot, anyway. For retirement to be envisioned and achieved as a period of greater freedom of choice and control, people must accumulate net worth. But if the prospects for disinflation advanced earlier by one of the panelists prove accurate, it will be far more difficult for people to accumulate the necessary wealth in a lower-return world.

A Lifelong Process

To steer away from the notion of retirement as a single event to be targeted, retirement planning needs to be better incorporated into lifetime planning. In fact, more than one participant advocated that retirement not be treated as a separate component of financial planning at all, but rather should be viewed as seamless. People may live differently in retirement than during their pre-retirement lives, or they may not. The main concern is to ensure that they live fulfilled lives.

Others disagreed with this viewpoint on the basis that retirement is still "event driven" in the eyes of most people, and that the public isn't going to respond adequately to any new vision of retirement by trying to completely

submerge that vision into a broader lifetime planning process.

Retirement Features

Finally, for the financial services community to "sell" this new vision of retirement to the public, the new vision must communicate positive features that make it attractive enough to motivate consumers to do the work necessary to make it happen. Some of the features suggested by participants were:

- Opportunities
- Independence
- Choice/control
- Dignity
- Responsibility
- Peace of mind
- Legacy
- Security
- Achievability
- Success

Thus, for any new approach to retirement to succeed, concurred participants, consumers must firmly believe in the desirability of that retirement vision, that they are personally responsible for working toward that vision, and that they can realistically achieve that vision.

How Do We Communicate the Need to Prepare for These New Approaches to Retirement?

Many participants felt that the financial planning process itself remains a viable one for helping consumers prepare for a new kind of retirement. The real issue, they said, is how to get out the message about planning for the new retirement. There was a general sense of frustration among participants that, despite the best efforts of the financial services community to date, the messages about the need to save for retirement and the importance of making sound financial decisions still have not caught on with the public.

Why this failure? One argument was that, while people know they must save, the desire for immediate gratification—today's pursuit of possessions—detracts from efforts to save. It can take years for retirement funds to build up to the point that people recognize what they've done and feel proud about it. Criticism also was directed at the day-to-day reporting by the media of the market's ups and downs, and the emphasis on short-term performance by the financial services community. This preoccupation with the short term makes it difficult for individuals to focus on the long-term perspective needed for retirement planning.

Another criticism frequently voiced during the think tank was the appalling lack of financial planning education in our schools. One academic participant noted that his college has 28,000 students and thousands of courses, yet does not offer a single course on money management.

A New Word for Retirement?

One notion raised several times during the course of the think tank was that the very word "retirement" is an antiquated term which has outlived its usefulness, and that we may need a new word or phrase to more accurately reflect the new characteristics of retirement. It is a word that means too many things to too many people. It is no longer as simple as working most of one's life, retiring, and then sitting in a rocking chair or playing golf. That may be the definition for some, but not for others.

Commented one participant: " 'Retirement' is a word that many Baby Boomers are running away from. They're not identifying with it, and the more we try to cram the word down their throats, the more they are resisting. If we don't find a way to rethink this period of life we call retirement, we're not going to be successful in engaging 77 million people to be proactive in planning for the last third of their life."

Several substitutes for the word "retirement" were offered during discussions—life maturity planning, transition planning, independence planning, freedom of choice, downshifting, to name a few—though none seemed to stick.

Other participants didn't feel there was a problem with the word itself, that it is still meaningful to many people. Retirement as a word remains a fact of life—401(k) plans, for example, are called retirement plans, and that's not likely to change. It is more important for everyone to recognize that the word retirement means different things to different people, and to keep this in mind when planning for retirement, or when communicating with the public about retirement issues.

Simple or Complex Messages?

One of the more spirited discussions during the think tank revolved around the issue of how sophisticated or simple the message about the need to plan for retirement should be, a debate stemming out of the issues of envisioning a new "self" and creating "planners" versus "savers."

On the one hand, if the need is to create planners instead of merely savers, then this requires that more complex information be conveyed to the public. People must understand the power of compounding, for example, to understand the importance of saving early. They must understand that buying the maximum amount of home they can afford—advice that's often

given, and which many Baby Boomers follow these days—means they will have less money to invest for retirement. They must know the difference between stocks and bonds, and what a 401(k) plan is. In short, people must develop a minimum level of financial competency.

Furthermore, went the argument, the problem with the "keep it simple, stupid" approach is that today's Baby Boomers know their parents and grandparents never expected to live as long as they have. Future retirees realize they must prepare for a potential 40-year period of time, and "you don't prepare for that the same way you did if you expected to die at age 65. You can't tell them the same old thing."

All well and good, contended others, but to get results, the message of self-responsibility for retirement must be simple. It must begin with an emphasis on savings, perhaps without even focusing on retirement, per se. "Forget understanding compound interest. Tell people that if they don't want to depend on other people in retirement, they are going to have to spend less than they earn to save money."

In support of this argument, a university study of retirement efficacy was cited which found that the most important variable in predicting whether people would be able to maintain their standard of living during retirement was whether they currently are spending less than their income. The real challenge, thus, is getting people to take the first step by focusing on where they are right now. If that succeeds, the rest will fall into place.

Several well-known social-issue messages were cited as examples for their simplicity and success—"Don't do drugs," for one. The consequences of doing drugs—its impact on the individual, the person's family, society at large, and so on—is not discussed in the message itself. The same for the messages "Don't drink and drive" and "Practice safe sex." Again, the messages don't spend time explaining the consequences of drinking and driving or of unprotected sex. Yet they have made a relatively serious impact on their respective problems through time and repetition. The same approach could be taken with retirement. "Don't Procrastinate—Start Saving Now" or "The 10% Solution" were suggested messages that could be promoted.

Fear or a Positive Approach?

A central issue in the effort to convey the urgency and need to plan for this new retirement is whether to instill "fear" into people—which has been the traditional approach to retirement planning—or to take a more positive approach. While participants were somewhat divided on this issue, most leaned toward the positive. They felt that fear-based messages were counterproductive, and that a major reason Baby Boomers have stuck their heads in the sand regarding retirement planning is their fear that they'll

discover they need to save a very large amount of money, and they won't be able to achieve that goal. Comments in this vein included, "It's wrong to create the idea of 'buying' your freedom, and then constantly point out to someone how they're not meeting that goal," and "We can't scare people to death for 45 years. They won't stay scared for 45 years."

One participant said the major reason he'd come to the think tank was his hope that the group would be able to assign some positive attributes to aging, so that people would look at it in a positive way, not with denial, not with the fear that a nursing home would be their only alternative. In fact, a classic example of "fear marketing" is the promotion of long-term care insurance products. In a new retirement world of self-responsibility, the use of long-term care insurance will be critical. Yet the marketing of these products is a turn-off to Baby Boomers. "As a Baby Boomer, I would run in the opposite direction if I got a product that showed a dilapidated older woman sitting in a geriatric chair, trying to plead with me to buy this product. We're not going to effectively market long-term care insurance or retirement using those kinds of stereotypical perspectives."

Not all concurred on this viewpoint. For example, research has shown that the number-one reason people start to save is out of fear. Noted a participant: "People need to know the consequences of not saving. We're giving them hope and dignity and peace of mind and walks on the beach in San Pablo, but we're not teaching them that they may be eating cat food if they don't save enough. We need to make it simple, and the consequences clear—save early and often."

Too Many Options

Another communication hurdle the financial community must wrestle with is what one participant called "options overload." Research shows that Baby Boomers are feeling overwhelmed by financial information from magazines, the Internet, and a multitude of other sources, to the point that they are saying they don't know where to go and who to talk with to help them sort through all this information. The result is that they are shutting down, they are failing to take proactive steps for retirement.

Diverse Audiences

Although not discussed at length during the think tank, an issue raised several times was the difficulty of communicating any new retirement scenario to diverse audiences—that is, the messages that go to African-Americans, Latinos, women, and others need to be different from today's standard retirement messages. One participant recalled meeting with a group of largely affluent Black women. The issues of concern to them—caregiving, lifetime earnings, male partners, expectations of not retiring from work—were quite different from those issues facing many other

groups.

It also was asserted that, due in part to a tripling of mid-life divorce, the new retirees in the next millennium will be increasingly single—a virtual "tsunami of singleness." In this scenario, one of the challenges of the new retirement will be how to address the needs of single older women.

However, it was pointed out that any efforts to address diverse populations works at cross-purposes with efforts to promote a few simple messages, as advocated by some participants.

Delivery Challenges for the Financial Services Community

The financial services community itself came under criticism for its failure to adequately promote retirement and financial planning. It needs to completely overhaul how it looks at, examines, and delivers investing and retirement materials. As clients appear with increasingly complex retirement issues, advisors have tended to remain in a box, looking only at financial issues. Yet,, while lack of money remains a major obstacle to retirement planning, Baby Boomers also are reporting that they don't know what their retirement needs are, and that they lack knowledge. Therefore, advisors need to develop a "dialogue with clients, in which we spend more time talking about how we can be educational catalysts in terms of changing clients' perceptions of what they need."

Undermining the efforts of retirement advisors is that many people have felt they don't need professional advice because of the bull market. When market conditions ultimately change, the value of professional advice will rise and people will come in the door. The Baby Boomer generation also believes it is going to be able to control its own destiny—that a click of the mouse button is going to help people handle all of their retirement needs. Hence, financial planners need to adopt a new leadership role for this generation that convinces Baby Boomers to use financial planners as a "backup strategy of checks and balances, for making financially knowledgeable decisions."

The delivery system for financial planning and retirement planning also is flawed because the people who most need the services are those with the least amount to invest. They're unable to work with financial planners, for example, because they can't produce sufficient revenues for the planners. Also, the most knowledgeable and successful planners rise to the highest levels, which leaves a "huge vacuum at the lower level where this advice is most needed."

Said one participant: "Until we have a better delivery system, it won't make any difference how we say this. We won't be affecting the behaviors of a vast majority of people out there."

Others were less concerned with the issue of financial planners being able to serve everyone who needs financial planning—an impossible task, anyway, they said. Consumers have numerous other avenues for education, and even advice, including books and online sites. Planners should be more concerned with simply creating urgency among consumers to act today instead of waiting for an event to drive them to seek help. "They don't have to run off to a financial planner. Maybe it's just to begin to save, to start reading. A sense of urgency gets them into the ball game. They can go for professional assistance later."

Getting the Message Out

Participants advanced a variety of specific suggestions for getting the retirement message out. Among them:

- Use strong existing models for conveying educational information to the public, such as health-care organizations, to serve as examples and perhaps as delivery systems themselves for financial education.
- Help social services agencies develop financial literacy programs for their populations, with NEFE serving as a clearinghouse for the most successful programs.
- Promote basic financial education curricula in our nation's schools.
- Establish a financial triage system, where people could call for help or where a network of people could provide assistance through seminars.
- Create partnerships among the media, health and gerontology experts, trade groups, financial services groups, and educators that would promote the retirement message.

Outcomes

Over the three days of this first-of-its kind think tank, participants discussed a wide variety of issues about retirement in the 21st century. On some issues, there was clear consensus, while others evoked strong disagreements.

Among the points of agreement:

- Individuals must take greater personal responsibility for their retirement as the government's role as caretaker diminishes.
- The characteristics and challenges of retirement are changing, but the basic financial planning process to help achieve the new retirement is sound.
- The financial services community must do a better job of communicating and inspiring individuals to prepare for their own retirement.
- Basic financial education must become a regular part of the

curriculum in our nation's schools.

Among the points of disagreement:

- Consumers must become planners/Consumers must first become savers.
- It is important to first answer the question of what I want to be in retirement/People want simple answers with real numbers, not vague questions about "self."
- Retirement planning messages must be simple/Retirement planning messages should not be oversimplified.
- Retirement planning messages should be positive/Fear and the potential harsh realities of inadequate preparation for retirement can be a useful motivator.

Where Do We Go From Here?

As evident from the presentations and ensuing discussions of the think tank participants, the picture of retirement planning for the 21st century has not yet been brought sharply into focus. What is clear is that retirement is becoming more complex—one participant described it as analogous to managing a business enterprise. Old models, old scenarios for retirement no longer are adequate. Tomorrow's retirees—with the help of the financial services community—must aggressively prepare for retirement, and actively manage the retirement experience itself, to successfully deal with this more-complex future.

The National Endowment for Financial Education convened the "Retirement Planning in the 21st Century" think tank with the goal of helping to identify contemporary retirement issues and to stimulate new thinking and approaches. While the participants did not always agree on all the characteristics of the retirement of the future and its impact on retirement planning, their discussions were lively, invigorating, and thought-provoking. It is NEFE's hope that all who have a stake in sound retirement planning will find the contents of this report equally stimulating and thought-provoking—that the issues raised during the think tank will broaden perspectives on this critical topic and create a deeper appreciation of its complexities and challenges.

NEFE's purpose in distributing this report is to encourage its readers to absorb its implications and incorporate its information into their daily retirement work. For financial advisors, that may mean helping clients gain a new perspective on retirement, creating their own vision of their future within the context of these changes—and then responding to the challenge of achieving that vision in creative, effective ways. Researchers in gerontology, health-care, demography, investing, and the many other disciplines whose studies impact retirement planning can use the issues and

questions raised in this report to expand their work so that new thinking about retirement rises from a solid fact-based foundation. Financial services companies may find inspiration to create new products to enhance the implementation and success of these different approaches to retirement. Educators, financial planning organizations, employers, and government entities can use the report's findings to explore more effective ways to generate awareness of this vital issue, and to encourage individuals, particularly those who do not work directly with retirement advisors, to take necessary action.

Finally, it is the hope of the National Endowment for Financial Education that the results of this think tank will foster a continuing dialogue among those in all of the retirement planning disciplines. For only through a truly collaborative effort can we ensure that each individual experiences a fulfilling, financially secure retirement in the 21st century.

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Fellows Program NEFE Grants Program Research & Strategy

Innovative Thinking

NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

In May 1999, the National Endowment for Financial Education hosted a seminal event—a think tank convened for the purpose of looking into the future and identifying the changes, challenges, issues, and opportunities that will confront today's growing number of aging Americans as they embark on their retirement years. NEFE brought together a diverse group of experts from the financial services industry who advise others on retirement planning, as well as professionals from allied fields, to examine current trends, predict new ones—and discuss their impact on "Retirement Planning In the 21st Century." A report on the think tank follows.

RETIREMENT PLANNING IN THE 21ST CENTURY

A Think Tank Sponsored by the National Endowment for Financial Education
Tucson, Arizona—May 26-28, 1999

Introduction

As has been well documented and much discussed, the Baby Boom generation—that cohort of 77 million born between 1946 and 1964—has heavily influenced, if not dominated, the American political, social, cultural, and economic landscape. The financial services community has not escaped this influence. As Baby Boomers focused on their early and middle earning years, buying homes and raising families, the financial services industry, particularly the emerging financial planning profession, directed its attention to enhancing investment earnings and tax shelters for Baby Boomers. Now the industry has turned its attention to the new concern for Baby Boomers: retirement.

The first wave of Baby Boomers (the birth rate actually began rising in 1933, not 1946, and rose for the next 32 years) will begin to "retire" starting in the early years of the 21st century. The success or failure of their retirement experience will have profound implications for succeeding generations. The full implications of that retirement experience are not yet known. What is known is that the Boomers' retirement experience—like

virtually every other aspect of their generation—will be dramatically different from that of their parents and their grandparents.

But what exactly will this new retirement look like? Is it one clear vision, or many disparate ones? What will be the characteristics of the "new retiree"? What new assumptions must be made? If this new retirement is markedly different from the experiences of previous generations, how should Baby Boomers and succeeding generations prepare for it? How should the financial services industry help them prepare? Is its role primarily to ensure that people have enough money, whatever their vision of retirement—or is it to help them discover and choose the vision itself? What new planning approaches should be taken to achieve the desired results? How should those approaches be communicated to consumers?

With these questions and challenges in mind, the National Endowment for Financial Education® (NEFE®) convened a landmark think tank for the financial services industry to examine this vital issue. NEFE brought together 31 of the best and brightest minds in the retirement field to spend three days in the Arizona desert. Participants included financial planners, representatives of financial services firms, financial planning organizations, gerontologists, a social worker, a psychologist, researchers, and academicians. Their charge was to provide shape and substance to this new vision of retirement, and to examine the attendant issues.

When their work was done, all agreed the sharing of new perspectives and insights from their respective disciplines excited them. Many learned of work being done by others that they were not aware of, but which they instantly recognized as an invaluable contribution to the retirement field.

Intense, frank, and frequently passionate discussion and debate marked the three days. By no means did participants agree on every point or topic. Certainly the picture of the new retiree and the new retirement that emerged from the three days was not a fully formed one, nor was there unanimity about how the financial services industry should respond to this new perspective on retirement. Yet there were strong points of agreement. Among them:

- The picture of retirement is changing dramatically.
- Consumers must become more responsible for the success or failure of their own retirement.
- The financial services industry must do a much better job of educating the public about the features, possibilities—and parameters—of this new retirement.

Clearly, much more research, more dialogue, more bringing together of experts is needed. Nonetheless, the think tank proved a promising beginning, an invaluable jumping-off point, to take retirement planning

into the 21st century.

What Will the New Retirement—and Retiree—Look Like in the 21st Century?

The think tank opened with a keynote speaker, followed by a presentation by five panelists. These six presenters described the traditional view of retirement, the "old" view of retirement. Then they proceeded to paint a picture of what they think retirement in the 21st century will look like, what some of the new characteristics and parameters will be that define the "new retiree," and some of the challenges these new retirees and their financial advisors will face. Over the three days, participants joined in to elaborate on, and sometimes to disagree with, aspects of that portrait, adding their own shapes and hues.

The following section provides an overview of the key characteristics and challenges of the new retirement discussed at the think tank. Some of these points are not especially new. Participants acknowledged that some of them have been creeping into the retirement picture for decades now. Yet consumers—and some would say many retirement advisors—have been slow to respond to these new concepts. Many people still operate on outdated rules of thumb and premises. Hence, further elucidation and promulgation of these issues remain important if consumers and the financial services industry want to be prepared for the new retirement reality in the next millennium.

Traditional Retirement

The traditional concept of retirement—one many consumers, and even members of the financial services community, still picture today—is fairly clear. It is short and often not so sweet. One participant described it as the "miserable existence" model of retirement. It is a model that grew out of the observed reality of the Great Depression and developed during the 1940s and 1950s. This traditional vision sees retirement as representing a single "event"—a target date, typically around age 65, in which one goes abruptly from full employment to full non-employment. This concept of retirement evolved out of the days when work was predominately physical, and the body simply wore out in one's 50s or 60s. Retirement in this context is a brief period of idleness and declining health, a time in which the retiree is "too sick to work, yet too well to die." In response to this vision of retirement, the key retirement planning strategy was simply to plan prudently to ensure financial survival.

This simple, straightforward reality of retirement has been undergoing radical change during the last quarter century or more—driven by demographic forces—and creating a new reality of retirement. Future retirees will live a retirement quite different from that of their parents or

grandparents. They will follow different patterns—leaving the workplace earlier, leaving it later, leaving it only part-time, leaving and then returning to it. For example, someone might take a chunk of their retirement funds and go off to the Peace Corps for three years in their 40s or 50s with the idea that they will work until age 75 as a trade-off. Yet others will want to follow the traditional model—work until they reach their mid-60s and then leave the workplace entirely. Retirement planning in the future will need to incorporate these many disparate visions.

Increasing Longevity

Without question, the driving force behind this new retirement picture is increasing longevity—the remaining life span for people reaching a milestone age such as 65. As noted by one of the panelists, in the first 50 years of the 20^{th} century, longevity for people reaching age 65 increased 1.3 years for men and 2.8 years for women. But from 1950 to 1995, longevity for men increased 2.7 years and for women it jumped 4.2 years.[1] From 1995 to 2050, longevity is estimated to increase another 4.8 years for men and 3.2 years for women. In short, overall longevity is increasing at a faster and faster rate.[2]

Looked at another way, the number of people age 65 or older is expected to increase 17.5% from 1995 to 2010—but the number is expected to increase 106.8% from 1995 to 2030. The number of people age 85 and over is expected to increase 133.3% from 1995 to 2030![3]

As one participant put it, "We have a revolution going on in this country. Longevity has put the whole issue of what is retirement and who is old on its head."

The reality of this increasing longevity, coupled with improved health in retirement, is already well recognized in the financial services community, and even among many consumers, at least on an intellectual level. What is being recognized more slowly are the meaning and practical financial implications of this increased longevity. As a financial planner pointed out, it's not uncommon for new clients planning to retire soon to start talking about leaving an inheritance to their children. However, they begin to view that goal differently when it's pointed out to them that their children might be 70 years old before they inherit. Perhaps lifetime gifting would be more appropriate. Or clients say they plan to retire next year so they want to buy a new car now. What new car do they plan to buy, they are asked, that will last them through the next 30 to 40 years of retirement?

Changing Concepts of "Old"

Increasing longevity is changing the answer to the basic question of what is old. It was pointed out, for example, that when typical Baby Boomers are

asked to describe how old they are, they say they feel 10 to 20 years younger than they are chronologically.

The chronological milestones of life also are changing. Not long ago, people had their kids in their 20s, they bought a home in their 30s, the kids were out of the home in their 40s, and the parents still had 20 to 25 years to prepare for a short retirement. Today, people have kids in their 30s, and the kids are not out of the house until the parents are age 50 or older. Hence, where age 35 once was commonly considered middle age, middle age now occurs from around age 50 to retirement.

At the same time, there clearly is a fear of becoming old. A recently released study by the American Association of Retired Persons (AARP) was cited in which 63% of the Americans polled did not want to live to be age 100. Why not? Forty-six percent cited health problems as their biggest fear, but the second highest concern, among 38% of them, was that they would not have enough money to support themselves in old age![4]

Earlier Retirement

Another characteristic of the new retirement outlined at the think tank was that, at the same time that people are living longer in retirement, many are retiring earlier—some as early as age 55. Social Security has reported that in the last two to three years, two thirds of the people receiving their first Social Security check were early retirees. Another study showed that 39% of today's retirees retired at age 60 or younger, and another 27% entered retirement between ages 61 and 64.[5]

This trend toward earlier retirement, however, is not entirely a voluntary one. One panelist noted that 43% of retirees reported retiring earlier than they had planned, most often due to company downsizing or health problems (theirs or those of family members). A quarter of these retirees have worked for pay since retiring, another 42% say Social Security is their most important source of income, and a third noted that they never saved anything toward retirement.[6]

Meanwhile, only about half of today's workers say they expect to retire before age 65, and only 13% expect Social Security to be their main source of income.[7] "Thus, even on the surface," remarked a panelist, "experience versus expectations are in completely different worlds."

A New Definition of "Work"

While retirement from work at earlier ages is becoming more common, there also is a trend for people to work beyond the standard retirement age. "Employment in retirement is becoming the norm rather than the exception," was one observation at the think tank.

Some "retirees" may work out of financial necessity because they failed to save adequately for retirement, or they may experience financial emergencies that require greater-than-planned-for income needs. For others, work will provide an additional income stream that will make for a less stressful, more satisfying lifestyle than if they had stopped working entirely. Yet others will choose to work because of the emotional rewards they receive, which they can't obtain from the old vision of retirement as a time of rest. "Work is very much a part of the human spirit," it was noted. Gerontologists refer to this as "productive aging"—the desire to continue to produce and contribute to society in one's later years.

What form this "work" will take will vary widely. For some, it may mean a full-time job, but perhaps in a wholly different career than before, one that doesn't necessarily pay as well as their previous career, but something they've always wanted to do. It may be part-time work. Unpaid volunteerism also would be considered a form of work under this new definition of retirement. These "bridge" jobs could continue for as long as the person is healthy enough to do the job, perhaps even to within a few months of death.

However, one concern raised about this new perspective on work is how well corporate America, and Baby Boomers themselves, are preparing for this older workforce.

And the issue of working into retirement sparked a more fundamental question that was discussed throughout the think tank: If retirement is generally thought of as post-employment, does continued paid employment, full or part-time, mean the person isn't retired? The debate over what constitutes "retirement"—perhaps the need to redefine the word, or even substitute a new word or phrase—became a key issue at the think tank and will be explored in more depth later in this paper.

Not a Single Event

The financial services industry has succeeded in teaching people that retirement is a big issue, observed one panelist. Unfortunately, in the process, it has made retirement an "event." Yet it's not a single event, like birth and death. It's not a single destination, like a dot on the road map. It is the trip itself. People may say, "I will have achieved my goal when I retire at age 65"—but that begs the question of what will they do for the next 20, 30, or 40 years of retirement. "We should try to make retirement a non-event. If we do this correctly, then retirement becomes an insignificant Friday afternoon."

Interestingly, some participants expressed the view that, at times, the think tank group itself was still stuck in the old concept of retirement as an event people worked hard for and saved for so they could "buy" their freedom at

a particular point in the future. One can't divorce retirement planning from the rest of financial planning, went their argument. It must be viewed and planned for in the context of one's entire lifetime. "Do we really want to look at retirement as the last third of life that we get through and then die?" and "To amputate retirement from the rest of life is to fall under the old paradigm" were comments that exemplified this viewpoint.

No Longer Homogeneous

As the years of "retirement" stretch out three or even four decades, retirement no longer is the short, homogeneous phase in life that it once was. Consequently, the life and needs of a 55-year-old retiree are quite different from those of an 85-year-old retiree. One proposal was to think of retirement in three principal phases, or stages:

1. The "go-go" phase is like a second childhood without parental supervision, potentially the most wonderful time in a person's life.[8]
2. The "slow-go" phase is a more passive phase marked by time for quiet introspection and "getting life straight."[9]
3. The "no-go" phase is defined by the need for medical and nursing care, a phase that can cast a pall over the rest of retirement.[10]

Each of these phases brings different levels of expenses, and different cash-flow requirements, which financial advisors must be prepared to help their clients address.

Another approach offered was to look at retirees as "young-old" and "old-old." This divides retirees according to their functional age, rather than a chronological age. The young-old would live independently and be fully functional, the old-old would not be fully functional and would not be able to live independently. They might not be able to perform certain activities of daily living (ADLs), such as bathing or dressing, or instrumental ADLs, such as handling finances or driving.

Not all participants agreed with the description of the new retirement in such distinct phases or stages. Some preferred to think of it more as a developmental process, a continuum with no clear divisions. Others, however, found the concept of "stages"—like the well-established stages of grief, for example—to be a helpful way for financial advisors and consumers to conceptualize retirement, as long as everyone recognizes that, in reality, retirement is a continuum.

However one views retirement, all agreed that today it spans a much longer time frame than ever before, and that there can no longer be a "one-size-fits-all" retirement model.

More Complexity

Another distinguishing element of the new retirement is a general increase in planning complexity. As longevity increases, so does the need for asset management, tax and estate planning, expanded insurance products, and other financial strategies. As each generation lives longer, multiple generations exist side-by-side. Retirement can no longer be thought of as planning for a single person aging alone. It must involve the entire "family." From a retirement planning standpoint, the financial advisor may be looking at four clients instead of one, and must deal with issues that have been outside the traditional realm of financial planning. Caregiving, for example, and its potential impact on family net worth, becomes an important issue.

One of the problems with Baby Boomers is an attitude of "me, myself, and mine," said one participant. They must learn to step out of their own retirement needs and recognize that they may be responsible for the retirement years of other family members, as well. It was suggested that, within the next decade or two, the federal government will mandate that more adult children be financially responsible for their parents, such as on a means-tested basis.

Reliance on Defined-Contribution Plans

The new retirement will be built in large part on defined-contribution plans. Although it is well recognized that defined-contribution plans dominate today's retirement plan landscape, what may be less recognized is that workers have long lived in a defined-contribution world, not a defined-benefit world, according to one panelist. In 1975, only 39% of workers were covered by a defined-benefit plan.[11] In fact, there were twice as many defined-contribution plans as there were defined-benefit plans then, though defined-benefit plans had more participants and more assets. Among today's retirees, only one-third receives traditional pension payments, and those benefits account for only 19% of total retirement income. Defined-contribution plans now greatly exceed defined-benefit plans in the number of plans, participants, and assets.[12]

The good news, it was asserted, is that today's defined-contribution plans "better match the reality of the work experience for most individuals than at any time in the past." These plans are more geared to today's mobile workers (although yesterday's workers were rather mobile, too). A good example is the emergence of the cash-balance plan. While technically a traditional defined-benefit plan, it looks and acts a lot more like a 401(k) plan to workers.

The bigger question is this: Will these defined-contribution plans generate sufficient retirement income? One of the participants suggested that the answer lies in four key questions.

1. Do I participate? Among employers offering defined-contribution plans, 75% of eligible workers participate. Those who don't tend to be younger workers and lower-income workers.[13]
2. How much do I contribute? Again, lower-income participants tend to contribute only up to the level of the employer's matching contribution. Higher income workers are more apt to make the maximum contributions allowed.
3. How do I allocate my assets? Among 30-year-olds, 25% have 80% of their assets in equities, which is probably good. But another 25% have no assets in equities.[14]
4. When I change jobs, what do I do with my money? Older people, and those with larger distributions, tend to keep them in the plan or roll over the assets. Younger workers with smaller amounts—say $5,000 to $10,000—tend to cash out and spend the money on new cars and vacations, not realizing the value of compounding.

Will these trends continue over the next 10 years? Probably, unless we can better educate and inspire workers to use these plans to maximum advantage, contended the participant.

Have Baby Boomers Saved Enough?

It is not clear, contended one panelist, whether Baby Boomers have saved enough to see them adequately through their retirement years. While a Merrill Lynch study, for example, says Boomers have saved only one-third of what they need, a Congressional Budget Office study released early in the 1990s claimed that Boomers were saving enough.

What is clear is that people today are getting a later start on saving than the current generation of retirees. They stay in school, postpone marriage, and start families later than earlier generations. This, compounded by the fact that many are retiring earlier, leaves them less time to save for retirement. Baby Boomers also have much of their personal wealth tied up in their homes. The dilemma here is: When they retire, will the generations behind them—who will be buying these properties—pay enough for the Boomers to recoup the money they spent on their homes and have it to help pay for their retirement?

Lower Investment Returns During Retirement?

While, traditionally, much of the emphasis on retirement planning has been to build a sufficient nest egg, there has been little focus on the kinds of average nominal returns Baby Boomers might expect from their portfolios during their retirement, contended a panelist. Currently, expectations, at least as advanced by the popular press, are that double-digit returns will continue for domestic stocks and bonds over the next decade or two. These expected returns are "way, way too high," said one participant.

As with most of the other characteristics of the new retirement scenario of the 21st century, demographics play a key role here, it was argued. As the Baby Boom generation matured in the 1960s and 1970s, its immense size, compared with adjacent generations, created a demand for goods that couldn't be met fast enough by increased supply, so prices rose—inflation was demand-pulled rather than cost-pushed. That demand will inevitably slow as Boomers age. With smaller generations behind the Baby Boomers, the engine of "inflation" is becoming an engine of "disinflation." The impact of this slowing demand is already being seen in the trend in many industries to "merge and purge" in order to become internally efficient because they can't raise prices.

Predicted one participant, shrinking numbers of domestic workers will slow real GDP to perhaps 1% a year, while productivity—in part driven by an aging, more productive workforce—averages 2% a year. Total real GDP will thus average about 3% a year. Consequently, the expected inflation rate of 3% or higher that most financial planners use today in their retirement planning calculations is too high. A more realistic annual inflation rate will be around 1% over the next 10 to 20 years. Even factoring in increased demand from immigrants will not significantly alter this disinflationary trend.

The long-term outlook for U.S. Treasuries, whose current yield is in the 4% range, will shrink to the threes, then the twos, and eventually the ones. Total return for the S&P 500 would be around 7%. "At a minimum," said the panelist, "this means that a lot of models we have used in terms of when people should begin to move from riskier stocks to less risky bonds will go out the window. It will occur much later in life for Baby Boomers than it did for their parents' generation, if it happens much at all. The investment mantra in the coming years will be the global search for yield."

What New Approaches Need to be Adopted?

Following the exploration of some of the new characteristics and challenges of retirement in the 21st century, participants in the think tank turned their attention to examining the implications of these changes. From their discussions emerged several viewpoints, sometimes at odds with one another, as to what consumers and their financial advisors need to do to adapt to this new retirement environment.

Self-Responsibility

One of the central themes repeated throughout the think tank discussions was the issue of who is going to pay for this new retirement. Who will be responsible for well-being in old age? Will it still be based on the older model of entitlements and benefits, a kind of social adequacy or safety net, which says that society will ensure that anyone who reaches retirement will

be taken care of? Or will we have a model based on individual equity, individual responsibility, that says you only get out what you put in?

While participants acknowledged that the debate over government's role in providing or not providing a retirement safety net is far from settled, their overwhelming consensus was that retirement in the 21st century would fall squarely on the shoulders of individuals. Said one participant: "There's no question we're seeing the emergence of a new value of self-responsibility."

This message of self-responsibility is not a new one, of course, noted the participants. Government, the media, and the financial services community have been preaching it for years. With longevity steeply pushing up the cost of taking care of non-working people, particularly with regard to health-care costs, the government is making it clear that people will need to bear a larger share of the costs. The bigger questions to many of the participants were whether people are hearing the message and, if they are, what they can do about it. "How can we get people to take greater responsibility for their own retirement?"

Core "Competencies" and "Confidences"

An effort was made to establish certain "core competencies" that consumers should exhibit if they are to take personal responsibility for their retirement. These competencies may include at least an awareness of what consumers don't know and where they can find people and resources to help them. While, in many ways, the competencies were relevant to financial planning at all stages of life, there was value specific to retirement planning. The core competencies recommended by participants included:

- Being in a position to make choices
- Having the ability to make a self-assessment of and analyze one's financial position
- Being able to set clear goals
- Having a minimum level of financial literacy
- Having a level of "aging literacy" that recognizes the new elements of aging
- Being able to implement the strategies necessary to carry out one's goals

The point also was made that one must be not only financially "competent," but also financially "confident" about executing these competencies. For example, many people are financially knowledgeable, yet they lack the confidence necessary to turn their knowledge into action when it comes to making financial decisions.

Planners Versus Savers

Most participants agreed that the financial services community and educators must do a better job of helping people realize the advantages of saving early, of saving even small amounts of money. But some participants felt that we need to create "planners" instead of merely "savers" among the working population. They pointed out, for example, that many workers don't make the best use of their defined-contribution plans. While someone might contribute 5% of their paycheck because that's what their company will match, they need to put in 7% of their paycheck, and start doing it early. Learning to make good financial decisions, and monitoring those decisions to stay on track, instead of merely being "a saver," has become more critical because the longer retirement time span requires retirees to make more financial decisions, both in preparation for retirement and during retirement itself.

Another argument was that "saving" has absolutely no appeal to lower-income people. For them, it would be more productive to emphasize the need to manage their money, which is one of the main components of financial planning. Only after they start properly managing their money can they begin to save.

One reason people have been savers and not planners is that many don't have any idea how much they need to accumulate for a comfortable retirement. While 63% of individuals have begun saving for retirement, only 45% have even *tried* to determine how much they need.[15] Commented one participant: "If everybody proactively thought about and acted on their hopes for the future, that would be a quantum leap from where we are today. The bulk of the population deals primarily with 'today.' They throw some money toward their future because they know they need to, but with no thought beyond that."

Added another participant: "In some sense, we've done a good job, in that we've created a lot of savers. Maybe we've won the first battle, but hardly the war. The next challenge is creating planners who then save accordingly."

A New Self

The debate over planners and savers was linked to another hotly discussed issue—the creation of a new "self" in retirement. Some participants felt that retirement planning for the 21st century is really more about personal issues than financial issues, that it is about generating a new identity, a new sense of "self." Future retirees need to be asking what they want to do with their life during retirement, what the personal implications of retirement are for them. Baby Boomers are looking for a meaningful role in their later adulthood. Money is important to them, but so is meaning and quality of life in their retirement, whether it's through work or leisure or other means. One participant suggested that the reason many people don't go to

financial planners is because they are afraid to confront this question of what self they want in the future. Thus, financial planners must be very cautious in asking the question of the average person.

Others worried that this emphasis on creating a new identity, a new "self," in retirement, was a potentially "elitist" vision of retirement for the average person. Asking people what new self they want to create for retirement is the wrong focus for people who are barely getting by financially. It's an approach that isn't going to appeal to them. People just want to know: "How much money do I need, and how do I get it?"

But, countered the other viewpoint, merely asking this question begs another one: "How much money, and for what: so I don't have to eat dog food, or so I have enough to take a cruise?" Just because someone is barely getting by, or has never thought of this deeper quality-of-life question, doesn't mean the question shouldn't be asked.

Indeed, it was argued, the financial planning industry is currently an industry of answers. Instead, it should become an industry of questions. The questions must be asked before we can tell people the answers. Summed up one participant: "People spend more time cleaning out their refrigerator than they do thinking about their retirement lifestyle. That's because we give them rules of thumb and shortcuts to help them get there, because our expectation for them is that they either can't or don't want to go there."

As a final note in this area, one participant suggested that the entire discussion about creating a new self might be somewhat moot, anyway. For retirement to be envisioned and achieved as a period of greater freedom of choice and control, people must accumulate net worth. But if the prospects for disinflation advanced earlier by one of the panelists prove accurate, it will be far more difficult for people to accumulate the necessary wealth in a lower-return world.

A Lifelong Process

To steer away from the notion of retirement as a single event to be targeted, retirement planning needs to be better incorporated into lifetime planning. In fact, more than one participant advocated that retirement not be treated as a separate component of financial planning at all, but rather should be viewed as seamless. People may live differently in retirement than during their pre-retirement lives, or they may not. The main concern is to ensure that they live fulfilled lives.

Others disagreed with this viewpoint on the basis that retirement is still "event driven" in the eyes of most people, and that the public isn't going to respond adequately to any new vision of retirement by trying to completely

submerge that vision into a broader lifetime planning process.

Retirement Features

Finally, for the financial services community to "sell" this new vision of retirement to the public, the new vision must communicate positive features that make it attractive enough to motivate consumers to do the work necessary to make it happen. Some of the features suggested by participants were:

- Opportunities
- Independence
- Choice/control
- Dignity
- Responsibility
- Peace of mind
- Legacy
- Security
- Achievability
- Success

Thus, for any new approach to retirement to succeed, concurred participants, consumers must firmly believe in the desirability of that retirement vision, that they are personally responsible for working toward that vision, and that they can realistically achieve that vision.

How Do We Communicate the Need to Prepare for These New Approaches to Retirement?

Many participants felt that the financial planning process itself remains a viable one for helping consumers prepare for a new kind of retirement. The real issue, they said, is how to get out the message about planning for the new retirement. There was a general sense of frustration among participants that, despite the best efforts of the financial services community to date, the messages about the need to save for retirement and the importance of making sound financial decisions still have not caught on with the public.

Why this failure? One argument was that, while people know they must save, the desire for immediate gratification—today's pursuit of possessions—detracts from efforts to save. It can take years for retirement funds to build up to the point that people recognize what they've done and feel proud about it. Criticism also was directed at the day-to-day reporting by the media of the market's ups and downs, and the emphasis on short-term performance by the financial services community. This preoccupation with the short term makes it difficult for individuals to focus on the long-term perspective needed for retirement planning.

Another criticism frequently voiced during the think tank was the appalling lack of financial planning education in our schools. One academic participant noted that his college has 28,000 students and thousands of courses, yet does not offer a single course on money management.

A New Word for Retirement?

One notion raised several times during the course of the think tank was that the very word "retirement" is an antiquated term which has outlived its usefulness, and that we may need a new word or phrase to more accurately reflect the new characteristics of retirement. It is a word that means too many things to too many people. It is no longer as simple as working most of one's life, retiring, and then sitting in a rocking chair or playing golf. That may be the definition for some, but not for others.

Commented one participant: " 'Retirement' is a word that many Baby Boomers are running away from. They're not identifying with it, and the more we try to cram the word down their throats, the more they are resisting. If we don't find a way to rethink this period of life we call retirement, we're not going to be successful in engaging 77 million people to be proactive in planning for the last third of their life."

Several substitutes for the word "retirement" were offered during discussions—life maturity planning, transition planning, independence planning, freedom of choice, downshifting, to name a few—though none seemed to stick.

Other participants didn't feel there was a problem with the word itself, that it is still meaningful to many people. Retirement as a word remains a fact of life—401(k) plans, for example, are called retirement plans, and that's not likely to change. It is more important for everyone to recognize that the word retirement means different things to different people, and to keep this in mind when planning for retirement, or when communicating with the public about retirement issues.

Simple or Complex Messages?

One of the more spirited discussions during the think tank revolved around the issue of how sophisticated or simple the message about the need to plan for retirement should be, a debate stemming out of the issues of envisioning a new "self" and creating "planners" versus "savers."

On the one hand, if the need is to create planners instead of merely savers, then this requires that more complex information be conveyed to the public. People must understand the power of compounding, for example, to understand the importance of saving early. They must understand that buying the maximum amount of home they can afford—advice that's often

given, and which many Baby Boomers follow these days—means they will have less money to invest for retirement. They must know the difference between stocks and bonds, and what a 401(k) plan is. In short, people must develop a minimum level of financial competency.

Furthermore, went the argument, the problem with the "keep it simple, stupid" approach is that today's Baby Boomers know their parents and grandparents never expected to live as long as they have. Future retirees realize they must prepare for a potential 40-year period of time, and "you don't prepare for that the same way you did if you expected to die at age 65. You can't tell them the same old thing."

All well and good, contended others, but to get results, the message of self-responsibility for retirement must be simple. It must begin with an emphasis on savings, perhaps without even focusing on retirement, per se. "Forget understanding compound interest. Tell people that if they don't want to depend on other people in retirement, they are going to have to spend less than they earn to save money."

In support of this argument, a university study of retirement efficacy was cited which found that the most important variable in predicting whether people would be able to maintain their standard of living during retirement was whether they currently are spending less than their income. The real challenge, thus, is getting people to take the first step by focusing on where they are right now. If that succeeds, the rest will fall into place.

Several well-known social-issue messages were cited as examples for their simplicity and success—"Don't do drugs," for one. The consequences of doing drugs—its impact on the individual, the person's family, society at large, and so on—is not discussed in the message itself. The same for the messages "Don't drink and drive" and "Practice safe sex." Again, the messages don't spend time explaining the consequences of drinking and driving or of unprotected sex. Yet they have made a relatively serious impact on their respective problems through time and repetition. The same approach could be taken with retirement. "Don't Procrastinate—Start Saving Now" or "The 10% Solution" were suggested messages that could be promoted.

Fear or a Positive Approach?

A central issue in the effort to convey the urgency and need to plan for this new retirement is whether to instill "fear" into people—which has been the traditional approach to retirement planning—or to take a more positive approach. While participants were somewhat divided on this issue, most leaned toward the positive. They felt that fear-based messages were counterproductive, and that a major reason Baby Boomers have stuck their heads in the sand regarding retirement planning is their fear that they'll

discover they need to save a very large amount of money, and they won't be able to achieve that goal. Comments in this vein included, "It's wrong to create the idea of 'buying' your freedom, and then constantly point out to someone how they're not meeting that goal," and "We can't scare people to death for 45 years. They won't stay scared for 45 years."

One participant said the major reason he'd come to the think tank was his hope that the group would be able to assign some positive attributes to aging, so that people would look at it in a positive way, not with denial, not with the fear that a nursing home would be their only alternative. In fact, a classic example of "fear marketing" is the promotion of long-term care insurance products. In a new retirement world of self-responsibility, the use of long-term care insurance will be critical. Yet the marketing of these products is a turn-off to Baby Boomers. "As a Baby Boomer, I would run in the opposite direction if I got a product that showed a dilapidated older woman sitting in a geriatric chair, trying to plead with me to buy this product. We're not going to effectively market long-term care insurance or retirement using those kinds of stereotypical perspectives."

Not all concurred on this viewpoint. For example, research has shown that the number-one reason people start to save is out of fear. Noted a participant: "People need to know the consequences of not saving. We're giving them hope and dignity and peace of mind and walks on the beach in San Pablo, but we're not teaching them that they may be eating cat food if they don't save enough. We need to make it simple, and the consequences clear—save early and often."

Too Many Options

Another communication hurdle the financial community must wrestle with is what one participant called "options overload." Research shows that Baby Boomers are feeling overwhelmed by financial information from magazines, the Internet, and a multitude of other sources, to the point that they are saying they don't know where to go and who to talk with to help them sort through all this information. The result is that they are shutting down, they are failing to take proactive steps for retirement.

Diverse Audiences

Although not discussed at length during the think tank, an issue raised several times was the difficulty of communicating any new retirement scenario to diverse audiences—that is, the messages that go to African-Americans, Latinos, women, and others need to be different from today's standard retirement messages. One participant recalled meeting with a group of largely affluent Black women. The issues of concern to them—caregiving, lifetime earnings, male partners, expectations of not retiring from work—were quite different from those issues facing many other

groups.

It also was asserted that, due in part to a tripling of mid-life divorce, the new retirees in the next millennium will be increasingly single—a virtual "tsunami of singleness." In this scenario, one of the challenges of the new retirement will be how to address the needs of single older women.

However, it was pointed out that any efforts to address diverse populations works at cross-purposes with efforts to promote a few simple messages, as advocated by some participants.

Delivery Challenges for the Financial Services Community

The financial services community itself came under criticism for its failure to adequately promote retirement and financial planning. It needs to completely overhaul how it looks at, examines, and delivers investing and retirement materials. As clients appear with increasingly complex retirement issues, advisors have tended to remain in a box, looking only at financial issues. Yet, while lack of money remains a major obstacle to retirement planning, Baby Boomers also are reporting that they don't know what their retirement needs are, and that they lack knowledge. Therefore, advisors need to develop a "dialogue with clients, in which we spend more time talking about how we can be educational catalysts in terms of changing clients' perceptions of what they need."

Undermining the efforts of retirement advisors is that many people have felt they don't need professional advice because of the bull market. When market conditions ultimately change, the value of professional advice will rise and people will come in the door. The Baby Boomer generation also believes it is going to be able to control its own destiny—that a click of the mouse button is going to help people handle all of their retirement needs. Hence, financial planners need to adopt a new leadership role for this generation that convinces Baby Boomers to use financial planners as a "backup strategy of checks and balances, for making financially knowledgeable decisions."

The delivery system for financial planning and retirement planning also is flawed because the people who most need the services are those with the least amount to invest. They're unable to work with financial planners, for example, because they can't produce sufficient revenues for the planners. Also, the most knowledgeable and successful planners rise to the highest levels, which leaves a "huge vacuum at the lower level where this advice is most needed."

Said one participant: "Until we have a better delivery system, it won't make any difference how we say this. We won't be affecting the behaviors of a vast majority of people out there."

Others were less concerned with the issue of financial planners being able to serve everyone who needs financial planning—an impossible task, anyway, they said. Consumers have numerous other avenues for education, and even advice, including books and online sites. Planners should be more concerned with simply creating urgency among consumers to act today instead of waiting for an event to drive them to seek help. "They don't have to run off to a financial planner. Maybe it's just to begin to save, to start reading. A sense of urgency gets them into the ball game. They can go for professional assistance later."

Getting the Message Out

Participants advanced a variety of specific suggestions for getting the retirement message out. Among them:

- Use strong existing models for conveying educational information to the public, such as health-care organizations, to serve as examples and perhaps as delivery systems themselves for financial education.
- Help social services agencies develop financial literacy programs for their populations, with NEFE serving as a clearinghouse for the most successful programs.
- Promote basic financial education curricula in our nation's schools.
- Establish a financial triage system, where people could call for help or where a network of people could provide assistance through seminars.
- Create partnerships among the media, health and gerontology experts, trade groups, financial services groups, and educators that would promote the retirement message.

Outcomes

Over the three days of this first-of-its kind think tank, participants discussed a wide variety of issues about retirement in the 21st century. On some issues, there was clear consensus, while others evoked strong disagreements.

Among the points of agreement:

- Individuals must take greater personal responsibility for their retirement as the government's role as caretaker diminishes.
- The characteristics and challenges of retirement are changing, but the basic financial planning process to help achieve the new retirement is sound.
- The financial services community must do a better job of communicating and inspiring individuals to prepare for their own retirement.
- Basic financial education must become a regular part of the

curriculum in our nation's schools.

Among the points of disagreement:

- Consumers must become planners/Consumers must first become savers.
- It is important to first answer the question of what I want to be in retirement/People want simple answers with real numbers, not vague questions about "self."
- Retirement planning messages must be simple/Retirement planning messages should not be oversimplified.
- Retirement planning messages should be positive/Fear and the potential harsh realities of inadequate preparation for retirement can be a useful motivator.

Where Do We Go From Here?

As evident from the presentations and ensuing discussions of the think tank participants, the picture of retirement planning for the 21st century has not yet been brought sharply into focus. What is clear is that retirement is becoming more complex—one participant described it as analogous to managing a business enterprise. Old models, old scenarios for retirement no longer are adequate. Tomorrow's retirees—with the help of the financial services community—must aggressively prepare for retirement, and actively manage the retirement experience itself, to successfully deal with this more-complex future.

The National Endowment for Financial Education convened the "Retirement Planning in the 21st Century" think tank with the goal of helping to identify contemporary retirement issues and to stimulate new thinking and approaches. While the participants did not always agree on all the characteristics of the retirement of the future and its impact on retirement planning, their discussions were lively, invigorating, and thought-provoking. It is NEFE's hope that all who have a stake in sound retirement planning will find the contents of this report equally stimulating and thought-provoking—that the issues raised during the think tank will broaden perspectives on this critical topic and create a deeper appreciation of its complexities and challenges.

NEFE's purpose in distributing this report is to encourage its readers to absorb its implications and incorporate its information into their daily retirement work. For financial advisors, that may mean helping clients gain a new perspective on retirement, creating their own vision of their future within the context of these changes—and then responding to the challenge of achieving that vision in creative, effective ways. Researchers in gerontology, health-care, demography, investing, and the many other disciplines whose studies impact retirement planning can use the issues and

questions raised in this report to expand their work so that new thinking about retirement rises from a solid fact-based foundation. Financial services companies may find inspiration to create new products to enhance the implementation and success of these different approaches to retirement. Educators, financial planning organizations, employers, and government entities can use the report's findings to explore more effective ways to generate awareness of this vital issue, and to encourage individuals, particularly those who do not work directly with retirement advisors, to take necessary action.

Finally, it is the hope of the National Endowment for Financial Education that the results of this think tank will foster a continuing dialogue among those in all of the retirement planning disciplines. For only through a truly collaborative effort can we ensure that each individual experiences a fulfilling, financially secure retirement in the 21st century.

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